

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 31	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2013 - * 060	Amendment No. (req. for Amendments *)
Filing by BATS Exchange Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
			Rule	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) <input type="checkbox"/>		Section 806(e)(2) <input type="checkbox"/>	Section 3C(b)(2) <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="Proposed rule change related to the Risk Monitor Mechanism offered by BATS Options pursuant to Rule 21.16."/>				
Contact Information				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	<input type="text" value="Anders"/>	Last Name *	<input type="text" value="Franzon"/>	
Title *	<input type="text" value="VP, Associate General Counsel"/>			
E-mail *	<input type="text" value="afranzon@bats.com"/>			
Telephone *	<input type="text" value="(913) 815-7154"/>	Fax	<input type="text" value="(913) 815-7119"/>	
Signature				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	<input type="text" value="11/18/2013"/>	<input type="text" value="VP, Associate General Counsel"/>		
By	<input type="text" value="Anders Franzon"/>	<input type="text"/>		
(Name *)				
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				
<input type="button" value="Persona Not Validated - 1364234628553"/>				

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies

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Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend Rule 21.16, entitled “Risk Monitor Mechanism”, in order to modify the risk monitoring functionality offered to all Users³ of the BATS equity options trading platform (“BATS Options”) and to make a clarifying change to the rule text. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.⁴

(a) The text of the proposed rule change is attached as Exhibit 5. Material proposed to be added is underlined.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on November 10, 2009. Exchange staff will advise the Board of Directors of the Exchange of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ As defined in Exchange Rule 16.1(a)(63), a User is any Exchange member or sponsored participant authorized to obtain access to the Exchange.

⁴ 17 CFR 240.19b-4(f)(6)(iii).

Questions regarding this rule filing may be directed to Eric Swanson, Senior Vice President and General Counsel of the Exchange at (913) 815-7000.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.

(a) Purpose

The purpose of the proposed rule changes are: (1) to amend Exchange Rule 21.16(b)(ii) in order add a new percentage-based Specified Engagement Trigger⁵ to the Risk Monitor Mechanism; (2) to amend BATS Rule 21.16(c) in order to provide more granular cancellation of orders under the Risk Monitor Mechanism; (3) to make a clarifying change to BATS Rule 22.11; and (4) to add BATS Rule 21.16(e). Specifically, the Exchange proposes to amend Rule 21.16(b)(ii), entitled "Specified Engagement Triggers", in order to adopt a new type of Specified Engagement Trigger that will be triggered whenever a trade counter has calculated that the User has traded a certain percentage within a time period specified by the Exchange against the User's orders in a specified class. The Exchange also proposes to amend Rule 21.16(c) such that an incoming order that is received prior to the time that the Risk Monitor Mechanism is engaged and is executable against a User's quotation will execute up to the entire size of the User's quotation that would cause executions in excess of the User's Specified Engagement Trigger, but any additional executable quotations will be cancelled. The Exchange further proposes to amend Rule 22.11 in order to clarify the functionality of mass cancellation of trading interest, and to add Rule 21.16(e) in order to make clear that

⁵ As defined in Exchange Rule 21.16(b)(ii).

a User may engage the Risk Monitor Mechanism in order to implement such mass cancellation functionality.

Overview

Currently, the Exchange's Risk Monitor Mechanism operates by the System maintaining a counting program for each User. A single User may configure a single counting program or multiple counting programs to govern its trading activity (i.e., on a port by port basis). The counting program will count executions of contracts traded by each User and in specific Option Categories (as defined below) by each User. The counting program counts executions, contract volume, and notional value, within a specified time period established by each User (the "specified time period") and on an absolute basis for the trading day ("absolute limits"). The specified time period commences for an option when a transaction occurs in any series in such option. The counting program also counts a User's executions, contract volume, and notional value across all options which a User trades. The counting program counts executions in the following "Options Categories": front-month puts, front-month calls, back-month puts, and back month calls (each an "Option Category"). The counting program also counts a User's executions, contract volume, and notional value across all options which a User trades ("Firm Category"). For the purposes of the Risk Monitor Mechanism, a front-month put or call is an option that expires within the next two calendar months, including weeklies and other non-standard expirations, and a back-month put or call is an option that expires in any month more than two calendar months away from the current month.

The System engages the Risk Monitor Mechanism in a particular option when the counting program has determined that a User's trading has reached a Specified

Engagement Trigger established by such User during the specified time period or on an absolute basis. When a Specified Engagement Trigger is reached in an Options Category, the Risk Monitor Mechanism will automatically remove such User's orders in all series of the particular option and reject any additional orders from a User in such option until the counting program has been reset in accordance with paragraph (d) of Rule 21.16. The Risk Monitor Mechanism also attempts to cancel any orders that have been routed away to other options exchanges on behalf of the User.

As provided in subparagraph (b)(ii) of BATS Rule 21.16, each User can, optionally, establish Specified Engagement Triggers in each Options Category, per option, or in the Firm Category. Specified Engagement Triggers can be set as follows: (A) a contract volume trigger, measured against the number of contracts executed (the "volume trigger"); (B) a notional value trigger, measured against the notional value of executions⁶ (the "notional trigger"); and (C) an execution count trigger, measured against the number of executions ("count trigger"). Each of these triggers can be established in isolation (e.g., a User may choose only to implement a volume trigger) or a User can establish multiple separate triggers with different parameters. Also, as described above, the triggers can be implemented either as absolute limits or over a specified period of time.

Rule 22.11, entitled "Mass Cancellation of Trading Interest" currently provides that a User may simultaneously cancel all its bids, offers, and orders in all series of options by requesting the Exchange staff to effect such cancellation. The form of such

⁶ Notional value is calculated as the sum of all premiums paid times the number of contracts executed. For example, an option executed with a premium of \$3.00 for 5 contracts would count as \$15.00 notional value.

requests includes but is not limited to email or phone call from authorized individuals, and the Risk Monitor Mechanism. As part of Rule 22.11, a User may submit a request to cancel a subset or the entirety of its outstanding orders.

Percentage-Based Engagement Trigger

The Exchange proposes to create a new Specified Engagement Trigger to the Risk Monitor Mechanism based on percentage under BATS Rule 21.16(b)(ii) (the “percentage trigger”). The proposed percentage trigger would be triggered whenever a trade counter has calculated that the User has traded a set percentage (designated by the User) within a set time period (designated by the Exchange) against the User’s orders in a specified class. The set percentage is specified by the User (the “Specified Percentage”) and will be calculated as follows (and as shown in the examples below): (1) a counting program would first calculate, for each series of an option class, the percentage of a User’s combined order and quote size that is executed on each side of the market, including both displayed and non-displayed size; and (2) a counting program would then sum the overall series percentages for the entire option class to calculate the percentage.

Example 1

For Examples 1 and 2, if a User enters orders at the National Best Bid or Offer (“NBBO”) in four series of a class and its Specified Percentage is 100%, a counting program would calculate such percentage as follows:

Series	Quote Size	# of Contracts Executed	Series Percentage
Series 1	100	40	40%
Series 2	50	20	40%
Series 3	200	20	10%

Series 4	150	15	10%
Total	500	95	100%

In Example 1, the aggregate number of contracts executed among all series during the time period specified by the Exchange that equals the specified percentage of 100% is 95 contracts, at which point the percentage trigger would be triggered and the User's remaining orders in the appointed class would be cancelled.

Example 2

Series	Quote Size	# of Contracts Executed	Series Percentage
Series 1	100	0	0%
Series 2	50	0	0%
Series 3	200	0	0%
Series 4	150	150	100%
Total	500	150	100%

In Example 2, the aggregate number of contracts executed among all series during the time period specified by the Exchange that equals the specified percentage of 100% is 150 contracts, at which point the percentage trigger would be triggered and the User's remaining quotes in the appointed class would be cancelled.

Example 3

For Example 3, if a User is quoting at the NBBO in four series of a particular option class, and specifies its percentage trigger at 200%, a trade counter would calculate such percentage as follows:

Series	Quote Size	# of Contracts Executed	Series Percentage
Series 1	100	80	80%
Series 2	50	40	80%
Series 3	200	40	20%
Series 4	150	30	20%
Total	500	190	200%

In Example 3, the aggregate number of contracts executed among all series during the time period specified by the Exchange that equals the specified percentage of 200% is 190 contracts, at which point the percentage trigger would be triggered and the User's remaining quotes in the appointed class would be cancelled.

Order Cancellation

The Exchange also proposes to amend Rule 21.16(c) regarding what will happen to marketable orders that are executable against a User's quotation that are received prior to the time that the Risk Monitor Mechanism is engaged. Specifically, the Exchange is proposing to amend the rule such that where there are marketable orders that are executable against a User's order or quotation that are received prior to the time that the Risk Monitor Mechanism is engaged will be automatically executed up to the size of the User's quotation (but not *all* of the User's quotations, as currently implemented). For example, where a single User's Specified Engagement Trigger is 150 contracts, the User has entered the following sell orders in a given series that are resting at the Exchange, and the next most aggressively priced sell order in the series is 10.04:

<i>Price Level</i>	<i>Quoted Size</i>
10.01	100
10.02	100
10.03	150

Where another User then enters a 300 contract buy order priced at 10.03, the Exchange will allow the orders priced at 10.01 and 10.02 to execute in full, even though the execution of the 10.02 order will result in an execution of a total of 200 contracts, which will exceed the Specified Engagement Trigger of 150 contracts. The Exchange will then cancel the entirety of the 10.03 order and the remaining portion of the buy order will behave as indicated by the other User indicated upon entry. Under the current implementation, the Exchange would allow the entirety of the buy order to execute before cancelling any of the User's orders, meaning that the orders priced at 10.01 and 10.02 would execute in full and 100 shares of the order priced at 10.03 would execute, at which point the remaining 50 shares of the order priced at 10.03 would be cancelled. The Exchange believes that this change in the implementation of the Risk Monitor Mechanism will provide an appropriate level of additional protection for firms using the mechanism such that, while their risk limits can be exceeded to satisfy an incoming order, such limits will be better protected by cancelling interest after the first quotation has been executed that equals or exceeds the User's Specified Engagement Trigger (i.e., the Exchange will not allow an incoming order to execute against all of a User's quotations even after their risk limits have been breached).

Clarifying Changes

The Exchange also proposes to make a clarifying amendment to Rule 22.11 in order to make the mass cancellation functionality more clear. As described above, a User

may submit a request to cancel any subset or the entirety of its outstanding orders. The Exchange is proposing to clarify Rule 22.11 in order to make clear that a User may request to cancel orders for a specified underlying security.

Similarly, the Exchange proposes to make a clarifying change by adding paragraph 21.16(e) in order to make clear that a User may engage the Risk Monitor Mechanism in order to use the mass cancellation functionality from Rule 22.11.

(b) Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.⁷ Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,⁸ because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The Exchange believes that the proposal is appropriate and reasonable because it offers additional functionality for Users to manage their risk. Offering the percentage trigger and more granular order cancellation as part of the Risk Monitor Mechanism will provide Market Makers and other Users with greater control and flexibility with respect to managing risk and the manner in which they enter orders and quotes, allowing them to quote more aggressively, which removes impediments to a free and open market and

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

benefits all Users of BATS Options. The Exchange notes that a similar functionality is offered by NYSE Arca, Inc. (“NYSE Arca Options”) and NYSE Amex Options, Inc. (“NYSE Amex Options”).⁹

4. Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the act. To the contrary, the current variances between the Exchange’s Risk Monitor Mechanism and the risk monitoring available at other exchanges limit competition in that other exchanges are able to employ their risk management tools using a percentage-based trigger, while the Exchange cannot employ such a trigger. Thus, approval of the proposed rule change will promote competition because it will allow the Exchange to offer its Users similar percentage triggers as are available at other exchanges and thus compete with other exchanges for order flow that a User may not have directed to the Exchange if the percentage trigger was not available.

5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

6. Extension of Time Period for Commission Action

Not applicable.

⁹ See NYSE Arca Options Rule 6.40(d); see also NYSE Amex Options Rule 928NY(d).

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A)¹⁰ of the Act and Rule 19b-4(f)(6)(iii) thereunder¹¹ because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate.

The Exchange believes that its rule change proposal is appropriate for filing on an immediately effective basis under paragraph (f)(6) of Rule 19b-4. In particular, the Exchange believes that this proposal is non-controversial, will not significantly affect the protection of investors or the public interest, and is eligible to become effective immediately because it raises no novel issues and is substantially based on similar functionality that is available on the Exchange and on multiple competing exchanges.¹² Moreover, the Exchange believes that the proposal is consistent with the protection of investors and the public interest because it will permit Users to better manage the risk of multiple, nearly simultaneous executions against their proprietary interest that, in today's highly automated and electronic trading environment, can occur across multiple series of different option classes. Consistent with the ability to better manage risk, the Exchange

¹⁰ 15 U.S.C. § 78s(b)(3)(A)

¹¹ 17 C.F.R. § 240.19b-4(f)(6)(iii).

¹² For example, NYSE Arca Options Rule 6.40(d) and NYSE Amex Options Rule 928NY(d) each provide for "Percentage-Based Risk Limitation Mechanism," which are substantially similar to the percentage trigger proposed by the Exchange.

anticipates that the proposed rule change could enhance the Exchange's overall market liquidity for series traded on the Exchange, which would benefit investors and the public interest. Additionally, the Exchange believes that the proposed rule change would not impose any significant burden on competition, but rather, that making the percentage trigger available to all Users is designed to promote just and equitable principles of trade on the Exchange. The Exchange believes that the proposed change to Rule 21.16(c) is a clarifying change that eliminates potential confusion with respect to the meaning of a User's "quotation" within the context of that rule. For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4.¹³

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests the Commission to waive the noted operative delay so that the Exchange may implement the proposal immediately. Such waiver is appropriate in order to provide Users with an additional method of mitigating exposure risk for all Users and will assist Users in providing aggressive quotes and increased liquidity, thus improving overall market quality on the Exchange for the benefit of all investors and the public. Waiver of the operative delay will enable these benefits to become available without undue delay. The Exchange notes that this proposal does not propose any new policies or provisions that are unique or unproven, as all changes proposed herein are changes to the Exchange's rules based on the rules of

¹³Id.

another self-regulatory organization or clarifying changes, as described in further detail below.¹⁴

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

The Exchange's proposed amendment to Rule 21.16(b)(ii) is based on and is substantially similar in all material respects to NYSE Arca Options Rule 6.40(d) and NYSE Amex Rule 928NY(d).

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

¹⁴ See supra note 9.

11. Exhibits

Exhibit 1: Completed Notice of the Proposed Rule Change for publication in the Federal Register.

Exhibits 2 – 4: Not applicable.

Exhibit 5: Text of Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-BATS-2013-060)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify the Risk Monitoring Functionality Offered by the Exchange.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 18, 2013, BATS Exchange, Inc. (the “Exchange” or “BATS”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6)(iii) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal to amend Rule 21.16, entitled “Risk Monitor Mechanism”, in order to modify the risk monitoring functionality offered to all Users⁵ of the BATS equity options trading platform (“BATS Options”) and to make a clarifying change to the rule text.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

⁵ As defined in Exchange Rule 16.1(a)(63), a User is any Exchange member or sponsored participant authorized to obtain access to the Exchange.

The text of the proposed rule change is available at the Exchange's Web site at <http://www.batstrading.com>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule changes are: (1) to amend Exchange Rule 21.16(b)(ii) in order add a new percentage-based Specified Engagement Trigger⁶ to the Risk Monitor Mechanism; (2) to amend BATS Rule 21.16(c) in order to provide more granular cancellation of orders under the Risk Monitor Mechanism; (3) to make a clarifying change to BATS Rule 22.11; and (4) to add BATS Rule 21.16(e). Specifically, the Exchange proposes to amend Rule 21.16(b)(ii), entitled "Specified Engagement Triggers", in order to adopt a new type of Specified Engagement Trigger that will be triggered whenever a trade counter has calculated that the User has traded a certain percentage within a time period specified by the Exchange against the User's orders in a specified class. The Exchange also proposes to amend Rule 21.16(c) such that an

⁶ As defined in Exchange Rule 21.16(b)(ii).

incoming order that is received prior to the time that the Risk Monitor Mechanism is engaged and is executable against a User's quotation will execute up to the entire size of the User's quotation that would cause executions in excess of the User's Specified Engagement Trigger, but any additional executable quotations will be cancelled. The Exchange further proposes to amend Rule 22.11 in order to clarify the functionality of mass cancellation of trading interest, and to add Rule 21.16(e) in order to make clear that a User may engage the Risk Monitor Mechanism in order to implement such mass cancellation functionality.

Overview

Currently, the Exchange's Risk Monitor Mechanism operates by the System maintaining a counting program for each User. A single User may configure a single counting program or multiple counting programs to govern its trading activity (i.e., on a port by port basis). The counting program will count executions of contracts traded by each User and in specific Option Categories (as defined below) by each User. The counting program counts executions, contract volume, and notional value, within a specified time period established by each User (the "specified time period") and on an absolute basis for the trading day ("absolute limits"). The specified time period commences for an option when a transaction occurs in any series in such option. The counting program also counts a User's executions, contract volume, and notional value across all options which a User trades. The counting program counts executions in the following "Options Categories": front-month puts, front-month calls, back-month puts, and back month calls (each an "Option Category"). The counting program also counts a User's executions, contract volume, and notional value across all options which a User

trades (“Firm Category”). For the purposes of the Risk Monitor Mechanism, a front-month put or call is an option that expires within the next two calendar months, including weeklies and other non-standard expirations, and a back-month put or call is an option that expires in any month more than two calendar months away from the current month.

The System engages the Risk Monitor Mechanism in a particular option when the counting program has determined that a User’s trading has reached a Specified Engagement Trigger established by such User during the specified time period or on an absolute basis. When a Specified Engagement Trigger is reached in an Options Category, the Risk Monitor Mechanism will automatically remove such User’s orders in all series of the particular option and reject any additional orders from a User in such option until the counting program has been reset in accordance with paragraph (d) of Rule 21.16. The Risk Monitor Mechanism also attempts to cancel any orders that have been routed away to other options exchanges on behalf of the User.

As provided in subparagraph (b)(ii) of BATS Rule 21.16, each User can, optionally, establish Specified Engagement Triggers in each Options Category, per option, or in the Firm Category. Specified Engagement Triggers can be set as follows: (A) a contract volume trigger, measured against the number of contracts executed (the “volume trigger”); (B) a notional value trigger, measured against the notional value of executions⁷ (the “notional trigger”); and (C) an execution count trigger, measured against the number of executions (“count trigger”). Each of these triggers can be established in isolation (e.g., a User may choose only to implement a volume trigger) or a User can

⁷ Notional value is calculated as the sum of all premiums paid times the number of contracts executed. For example, an option executed with a premium of \$3.00 for 5 contracts would count as \$15.00 notional value.

establish multiple separate triggers with different parameters. Also, as described above, the triggers can be implemented either as absolute limits or over a specified period of time.

Rule 22.11, entitled “Mass Cancellation of Trading Interest” currently provides that a User may simultaneously cancel all its bids, offers, and orders in all series of options by requesting the Exchange staff to effect such cancellation. The form of such requests includes but is not limited to email or phone call from authorized individuals, and the Risk Monitor Mechanism. As part of Rule 22.11, a User may submit a request to cancel a subset or the entirety of its outstanding orders.

Percentage-Based Engagement Trigger

The Exchange proposes to create a new Specified Engagement Trigger to the Risk Monitor Mechanism based on percentage under BATS Rule 21.16(b)(ii) (the “percentage trigger”). The proposed percentage trigger would be triggered whenever a trade counter has calculated that the User has traded a set percentage (designated by the User) within a set time period (designated by the Exchange) against the User’s orders in a specified class. The set percentage is specified by the User (the “Specified Percentage”) and will be calculated as follows (and as shown in the examples below): (1) a counting program would first calculate, for each series of an option class, the percentage of a User’s combined order and quote size that is executed on each side of the market, including both displayed and non-displayed size; and (2) a counting program would then sum the overall series percentages for the entire option class to calculate the percentage.

Example 1

For Examples 1 and 2, if a User enters orders at the National Best Bid or Offer (“NBBO”) in four series of a class and its Specified Percentage is 100%, a counting program would calculate such percentage as follows:

Series	Quote Size	# of Contracts Executed	Series Percentage
Series 1	100	40	40%
Series 2	50	20	40%
Series 3	200	20	10%
Series 4	150	15	10%
Total	500	95	100%

In Example 1, the aggregate number of contracts executed among all series during the time period specified by the Exchange that equals the specified percentage of 100% is 95 contracts, at which point the percentage trigger would be triggered and the User’s remaining orders in the appointed class would be cancelled.

Example 2

Series	Quote Size	# of Contracts Executed	Series Percentage
Series 1	100	0	0%
Series 2	50	0	0%
Series 3	200	0	0%
Series 4	150	150	100%
Total	500	150	100%

In Example 2, the aggregate number of contracts executed among all series during the time period specified by the Exchange that equals the specified percentage of 100% is 150 contracts, at which point the percentage trigger would be triggered and the User's remaining quotes in the appointed class would be cancelled.

Example 3

For Example 3, if a User is quoting at the NBBO in four series of a particular option class, and specifies its percentage trigger at 200%, a trade counter would calculate such percentage as follows:

Series	Quote Size	# of Contracts Executed	Series Percentage
Series 1	100	80	80%
Series 2	50	40	80%
Series 3	200	40	20%
Series 4	150	30	20%
Total	500	190	200%

In Example 3, the aggregate number of contracts executed among all series during the time period specified by the Exchange that equals the specified percentage of 200% is 190 contracts, at which point the percentage trigger would be triggered and the User's remaining quotes in the appointed class would be cancelled.

Order Cancellation

The Exchange also proposes to amend Rule 21.16(c) regarding what will happen to marketable orders that are executable against a User's quotation that are received prior to the time that the Risk Monitor Mechanism is engaged. Specifically, the Exchange is

proposing to amend the rule such that where there are marketable orders that are executable against a User's order or quotation that are received prior to the time that the Risk Monitor Mechanism is engaged will be automatically executed up to the size of the User's quotation (but not *all* of the User's quotations, as currently implemented). For example, where a single User's Specified Engagement Trigger is 150 contracts, the User has entered the following sell orders in a given series that are resting at the Exchange, and the next most aggressively priced sell order in the series is 10.04:

<i>Price Level</i>	<i>Quoted Size</i>
10.01	100
10.02	100
10.03	150

Where another User then enters a 300 contract buy order priced at 10.03, the Exchange will allow the orders priced at 10.01 and 10.02 to execute in full, even though the execution of the 10.02 order will result in an execution of a total of 200 contracts, which will exceed the Specified Engagement Trigger of 150 contracts. The Exchange will then cancel the entirety of the 10.03 order and the remaining portion of the buy order will behave as indicated by the other User indicated upon entry. Under the current implementation, the Exchange would allow the entirety of the buy order to execute before cancelling any of the User's orders, meaning that the orders priced at 10.01 and 10.02 would execute in full and 100 shares of the order priced at 10.03 would execute, at which point the remaining 50 shares of the order priced at 10.03 would be cancelled. The Exchange believes that this change in the implementation of the Risk Monitor Mechanism will provide an appropriate level of additional protection for firms using the mechanism such that, while their risk limits can be exceeded to satisfy an incoming order,

such limits will be better protected by cancelling interest after the first quotation has been executed that equals or exceeds the User's Specified Engagement Trigger (i.e., the Exchange will not allow an incoming order to execute against all of a User's quotations even after their risk limits have been breached).

Clarifying Changes

The Exchange also proposes to make a clarifying amendment to Rule 22.11 in order to make the mass cancellation functionality more clear. As described above, a User may submit a request to cancel any subset or the entirety of its outstanding orders. The Exchange is proposing to clarify Rule 22.11 in order to make clear that a User may request to cancel orders for a specified underlying security.

Similarly, the Exchange proposes to make a clarifying change by adding paragraph 21.16(e) in order to make clear that a User may engage the Risk Monitor Mechanism in order to use the mass cancellation functionality from Rule 22.11.

2. Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.⁸ Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,⁹ because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

perfect the mechanism of, a free and open market and a national market system. The Exchange believes that the proposal is appropriate and reasonable because it offers additional functionality for Users to manage their risk. Offering the percentage trigger and more granular order cancellation as part of the Risk Monitor Mechanism will provide Market Makers and other Users with greater control and flexibility with respect to managing risk and the manner in which they enter orders and quotes, allowing them to quote more aggressively, which removes impediments to a free and open market and benefits all Users of BATS Options. The Exchange notes that a similar functionality is offered by NYSE Arca, Inc. (“NYSE Arca Options”) and NYSE Amex Options, Inc. (“NYSE Amex Options”).¹⁰

(B) Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the act. To the contrary, the current variances between the Exchange’s Risk Monitor Mechanism and the risk monitoring available at other exchanges limit competition in that other exchanges are able to employ their risk management tools using a percentage-based trigger, while the Exchange cannot employ such a trigger. Thus, approval of the proposed rule change will promote competition because it will allow the Exchange to offer its Users similar percentage triggers as are available at other exchanges and thus compete with other exchanges for order flow that a User may not have directed to the Exchange if the percentage trigger was not available.

¹⁰ See NYSE Arca Options Rule 6.40(d); see also NYSE Amex Options Rule 928NY(d).

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6)(iii) thereunder.¹²

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-BATS-2013-060 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-BATS-2013-060. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule changes between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BATS-2013-060 and should be submitted on or before [_____21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Kevin M. O'Neill
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).

Note: Proposed new language is underlined.

Rules of BATS Exchange, Inc.

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CHAPTER XVI. GENERAL PROVISIONS – BATS OPTIONS

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CHAPTER XXI. TRADING SYSTEMS

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Rule 21.16. Risk Monitor Mechanism

(a) (No changes.)

(b)

(i) (No changes.)

(ii) Specified Engagement Triggers. Each User can, optionally, establish Engagement Triggers in each Options Category, per option, or in the Firm Category. Engagement Triggers can be set as follows: (A) [A]a contract volume trigger, measured against the number of contracts executed (the “volume trigger”); (B) [A]a notional value trigger, measured against the notional value of executions (“notional trigger”); [and](C) [A]an execution count trigger, measured against the number of executions (“count trigger”); and (D) a percentage based trigger, measured against the number of contracts executed as a percentage of the number of contracts outstanding within a time period designated by the Exchange (“percentage trigger”).

(c) Any marketable orders, or quotes that are executable against a User’s quotation that are received prior to the time the Risk Monitor Mechanism is engaged will be automatically executed at the price up to the size of the User’s [size]quotation, regardless of whether such an execution results in executions in excess of the User’s Specified Engagement Trigger.

(d) (No changes.)

(e) A User may also engage the Risk Monitor Mechanism to cancel resting bids and offers, as well as subsequent orders as set forth in Rule 22.11.

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CHAPTER XXII. MARKET PARTICIPANTS

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Rule 22.11. Mass Cancellation of Trading Interest

An Options Member may simultaneously cancel all its bids, offers, and orders in all series of options or in all options for a specified underlying security by requesting the Exchange staff to effect such cancellation.

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